



U.S. Municipal Bond Market Falling Confidence and No Federal Stimulus Increase To Start the Week

On Sunday night, more fear about the potential impact the spread of COVID-19 may have on economic activity in the U.S. and the uncertainty about oil prices in the wake of a potential price war between Russia and Middle Eastern oil providers soured investors again. Early this morning, U.S. Treasury yields, the price of crude oil, and the S&P 500 futures fell. The S&P 500 fell more than 7%. Circuit breakers were triggered which halted trading for 15 minutes.

There has been only limited federal government action to date, and it may appear to some that not all federal lawmakers are taking the health care and economic threat COVID-19 poses as being credible. It was just about two weeks ago when Dr. Nancy Messonnier, a CDC vaccine expert, warned that "Disruption to everyday life might be severe." President Trump tweeted over the weekend, "We have a perfectly coordinated and fine tuned plan at the White House for our attack on CoronaVirus." It appears lawmakers could be at odds with health experts, and COVID-19 numbers are climbing every day in the U.S.

The U.S. Federal Reserve took surprise emergency measures last week. President Trump signed an \$8 billion emergency aid package to combat the coronavirus. Those are positive steps for sure, but the markets are guessing – as are we – that state and local governments and health care officials are expecting more, and we believe Sunday's and Monday's market activity was reflecting this sentiment as well. About five days ago, reports came out that Treasury Secretary Mnuchin was potentially working with Congress on an aid package that could prioritize infrastructure spending and tax cuts. Elizabeth Warren mentioned a \$400 billion stimulus or aid package. Prior to the weekend a report came out indicating the airline, travel and cruise industries could get tax relief from Washington, per the Washington Post. A recent Bloomberg article noted that aides to President Trump were working over the weekend on proposals as well.¹ We believe that targeted stimulus measures could potentially be a positive shot in the arm for many municipal market sectors, but it all depends upon the details of course.

By way of background, the World Financial Crisis of 2008 worsened in September 2008. Lehman Brothers filed for bankruptcy protection on September 15, 2008. The U.S. government Emergency Economic Stabilization Act of 2008, which included Hank Paulsen's \$700 billion Troubled Asset Relief Program (TARP), was proposed on Sept. 19, 2008, and became law on Oct. 3, 2008. It was not until months later that President Obama finally signed the \$831 billion American Recovery and Reinvestment Act of 2009 (Recovery Act) into law. The Recovery Act included significant aid for state and local governments, education and healthcare, and it passed after very little Republican support for the legislation.

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By describing these past aid packages, we hope to offer some context about the magnitude in dollars and timing. Based on what is at stake now, we think that in 2020 the market is looking for much more than \$8 billion in aid for COVID-19. The market is looking for not only an acknowledgement but action acknowledging the U.S. is at risk of the potentially “changing of everyday life,” albeit temporarily, as Dr Messonnier indicated. Mitigation strategies that could limit – and potentially severely limit – economic activity could be instituted. Some industries may require federal attention, and the U.S. health care system, potentially through aid via state and local government, may need support to handle the increased patient activity.

And this is only Monday. We expect to hear more out of Washington in the coming weeks.

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¹ [Trump's Aides Drafting Economic Steps to Fight Virus Fallout. Bloomberg. March 8, 2020.](#)

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